Outsourcing and IT

CCT225 Case Report Q.13
TUT0104 - Joanie Lim
March 20, 2018
Sumaiya Saleem, Sarah Yahia, Simran Samra, Aaisha Shafique
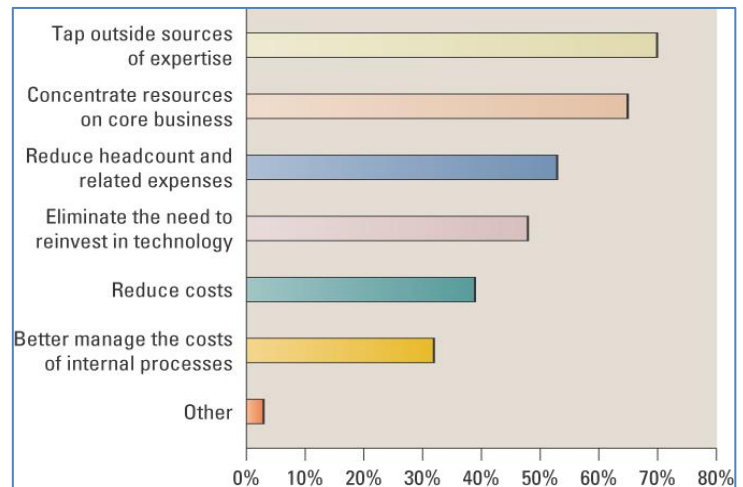
Introduction

Outsourcing is a business practice of hiring an outside organization to provide a service or services that choose not to perform them in-house. This differs to the traditional business route of insourcing, which is the use of professional expertise within an organization to develop and maintain the organizations systems in-house. Outsourcing is a growing business practice and is becoming an integral component to many organizations, as it allows for various benefits and competitive advantage through different services. It is important to consider the difference between outsourcing and offshoring, a common area of confusion. While outsourcing is hiring an organization to perform a service rather than in-house, offshoring is the entire relocation of a business process from one country to another, typically in manufacturing. There are various types of outsourcing, including offshore outsourcing, reshoring, and nearshoring, which incorporate both these practices. Offshore outsourcing has the outsourced business functions done in another country; reshoring describes bring back a business operation back to its home country as people learn the concept of outsourcing more; and nearshoring means having business functions moved geographically closer the organization's home country (Nearshore Technologies, 2018). These three outsourcing practices today have become increasingly common in functions including facilities management, human resources, and especially the Information Technology (IT) department.

This report will focus on the outsourcing of the IT department specifically, the benefits it provides in helping an organization reach its strategic objectives, and the factors to be considered to ensure the success in outsourcing this function.

Benefits in Outsourcing

Outsourcing provides many benefits that companies have recognized and have begun to take advantage of. Companies outsource in order to meet its strategic objectives, which differs across different organizations. Companies that turn to outsourcing mainly look for reduced operating costs, instill operational discipline, increase manufacturing productivity and flexibility, leveraging the expertise and innovation of specialized firms, encourage use of best practices for internal activities, avoid capital investment, and focus on the core competences of the organization (Lucas, 2018). The most common reason for outsourcing, as visualized on the chart, is to gain benefits from the use of outside sources of expertise.

Real life examples

A better example of this would be the company Alibaba.com, a top leading e-commerce infrastructure. Beginning as a small internet company, Alibaba.com was able to grow into the world's biggest global marketplace through the use of outsourcing. In the early days, China, the home country of the organization, was short in supply in web development talent. Therefore, the founder Jack Ma found the need to tap outside sources of expertise, and outsourced the website development component to a firm in the United States which were able to provide the skills that Alibaba needed. The company also found benefit in better management of internal processes, as

Ma had to find viable ways to grow the company through overcoming the internet restrictions in China (Duo, 2017).

Another popular company that utilizes the benefits of outsourcing is Google. While Google prides itself in its in-house culture and employees, it has outsourced many IT specialists and developers, and continuously implements outsourced work on the projects they are constantly working on. They do this in order to gain the greatest ROI (such as on AdWords, outsourcing phone and email support) and are able to achieve that goal through outsourcing (Duo, 2017)

Benefits to IT

These two companies provide a great example as to why outsourcing a business function is a tool for IT executives to help achieve the organizations strategic objectives. While it is perceived that companies outsource simply to reduce costs, it is evident that that is not the case, and rather to gain greater expertise on an area that the company would otherwise not be able to exceptionally perform themselves. In fact, a research study from IBM revealed that "only 27% of companies outsource to cut costs, whereas 36% are innovators and 37% are growth-seekers, using outsourcing as one of their tools to optimize their businesses" (Intetics, 2013). Core competencies are thus another primary usage for outsourcing; evident through the examples, firms in emerging economies utilize offshore outsourcing mainly to write code and develop systems, provide business processes, as well as provide professional services. Through this utilization, they can focus on the core competencies of the companies while also gaining better sources of expertise. Companies that have outsourced have a 63% satisfaction rating in its usage, significantly above the overall mean. According to recent articles, business process-outsourcing is common tactic used to gain organization objectives (Lacity, 2013). Innovation arises from the

change in a business system and how it works. Upgrading the way people do business, to fit in the modern systematic ways, helps organizations with growth and prosperity. As times changes, the way business is done must be adjusted as well. Technological advancements in programs and software causes IT executives to flourish greater knowledge to their targeted audience, which will ultimately allow the organization to meet its goals. The business outsourcing-process (BOP) in 2012, was estimated to be worth $309 billion in 2012, where the strategy has become popular within the business market (Lacity, 2013). Mary Lacity states in the article that, "Many companies look to business-process outsourcing to save money" (Lacity, 2013). Studies have shown that innovation has lead to wealth, power, and growth (Lacity, 2013). IT executives and service providers must work together to achieve a greater level of innovation (Lacity, 2013).

Success Factors in Outsourcing

Outsourcing a component of a company does not always end in success. In order to ensure the process is successful, there are various factors that need to be followed. The following list consist of the four core success factors we believe to be most important, retrieving information from a 2010 Market Survey by IT Business Edge as well Lecture 8 conducted by Gordon Lucas.

1. *Do not outsource a core competency*. A benefit that most organizations find in outsourcing is the ability to focus on the company's core competency and focus less core activities elsewhere; by outsourcing a core component, it is defeating the benefits that outsourcing provides. Ensure that the services being outsourced will allow the company to gain access of scarce skills, and focusing the best people on the core competence.

2. Accept Flexibility. Information technologies are constantly being updated, and thus older ones growing outdated or obsolete within months of its implementation. These technological advances occur increasingly quick, and it is important to be flexible with this and what is being delivered. In the long term, it is important that these changes are included in "contract flexibility", ensuring consistency and advancement as technology does.

3. Technical Specifications. With IT, it is important that you are getting the best service no matter the price. Some companies focus on choosing the cheapest IT company to outsource with, which ends up in failure as you get what you pay for. Despite it not always being a core component, the outsourced factors are still representing the performance of the company, and with IT can sometimes represent the face of the company. Also important to know what you are paying for within the IT department, and not simply allow the company to decide on specifications for you. Understand what your company needs in order to successfully meet strategic objectives.

4. Vendor/Service Provider Capability. When outsourcing, it is important to carefully consider the vendor and the contract. Ensure that the vendor is qualified to perform what the company is looking for, and that the contract consists of a time frame the company can work and grow within. Communication is key and it is important to make sure that the vendor and company are on the same page. Consider the service provider as a strategic partner, especially for long-term IT projects, as they are contributing to the growth of the organization rather than just trivial tasks.

These four factors were compiled in consideration of how IT outsourcing specifically can achieve success. Examining various companies, such as Google, it becomes evident that following these factors are what give a company success. Many companies failing to

consider these five components are what leads to failure of certain projects or the company itself. One failure example consists of Deloitte, when the company was contracted by the Massachusetts State Legislature to build a court computer system. The project expanded from the previously agreed upon 5 years spanning to 19 years instead. IT outsourcing projects can normally take longer than expected, this was beyond the norm. This example shows the importance of Vendor/Service Provider capability in terms of achieving success, and is a remind of the importance of contracts, especially when dealing with IT outsourcing.

Choosing an Outsourcing Company

The success factors outlined above are crucial steps to follow when considering outsourcing IT functions. When offshoring IT services, it is important to consider whether the companies being considered have the right skills and expertise needed to succeed in the company's objectives. Retrieved from Lecture 9 by Gordon Lucas, the company has to ask itself: Does the outsourcing company have access to the right skills in: User countries, Hub countries, and countries with large numbers of low cost yet skilled people? Have the outsourcing countries being considered have demonstrated experience and understanding in management, product delivery, and the Business Information Systems you need? These are all important questions to ask when considering the wide range of countries available for offshore outsourcing. It ensures the diversification of the services company, and if the location of the IT services will be suitable to meeting the company's own goals and objectives. Matt Karlyn 2010 describes Six Keys to Outsourcing Contract in order to ensure success.

Six Keys to Outsourcing Contract

1. *Knowledge transfer and performance review*, with regular meetings and communication mechanisms as well as incentives to reduce costs.

2. *Service Level Agreements (SLA's)*, with mechanisms to ensure efficiency and cost reviews.

3. *Bench Marks,* including terms on timings, procedures, processes, and results.

4. *User Satisfaction,* regular surveys after baseline to note strengths and weaknesses.

5. *Governance and ReDporting Structures*, ensure details on the objectives of both parties, escalation and changing management procedures, and timing and format of operational – create the base of a longer lasting relationship.

6. *Dispute Resolution Methods* that are informal; providing and maintaining services during the dispute are crucial.

(Lucas, 2018)

Conclusion

Outsourcing a business function provides major competitive advantage to an organization, especially pertaining to that of IT services. Many companies today look to outsource their IT department in order to focus on core competencies within the company, while providing various other benefits such as reduced costs, better management of internal processes, etc. Companies should look towards outsourcing their IT department, and when doing so consider the concluded four five success factors. Those five factors are integral to a company's success specifically to outsourcing the IT department. Most crucial from the list is considering the Vendor/Service provider capability, and ensuring the contract meets the needs of the company to ensure it is helping to meet their strategic objectives. Most commonly being offshore

outsourcing, this paper defines the six key components in determining what should be in the outsourcing contract, and overall gain the benefit and avoiding failure. Many companies failing to follow the success factors as well as integrating these components into their contract end up seeing flaws in their processes. Following the factors in the paper ensure the success in outsourcing the IT department, and enabling company competitive advantage.

Citations

4 KEY FACTORS FOR OUTSOURCING SUCCESS. (2015, June 6). Retrieved from

          http://www.blog.infinit-o.com/4-key-factors-outsourcing-success/

Benefits of outsourcing: Beyond cutting costs. (2013, October 24). Retrieved March 20, 2018,

     from   https://intetics.com/blog/benefits-of-outsourcing-beyond-cutting-costs-2

I. (2010). Six Key Success Factors for Outsourcing. *2010 Market Survey,* 4-8. Retrieved

March   20,   2018, from http://itonews.eu/files/f1289395538.pdf

Lucas, G. (2018). Lecture 8 and 9: *Outsourcing* [PowerPoint slides]. Retrieved from

     https://portal.utoronto.ca/webapps/blackboard/content/listContent.jsp?course_id=_92738

1_1&content_id=_6185902_1&mode=reset

Lacity, M. C., & Willcocks, L. P. (2013). Outsourcing business processes for innovation. *MIT*

     Sloan Management Review, 54(3), 63-69. Retrieved from

     http://myaccess.library.utoronto.ca/login?url=https://search-proquest-com.myaccess.libra

     ry.utoronto.ca/docview/1323896927?accountid=14771

Management Tools - Outsourcing. (n.d.). Retrieved March 21, 2018, from

     http://www.bain.com/publications/articles/management-tools-outsourcing.aspx

N. (2018). Types of outsourcing. Retrieved March 19, 2018, from

     https://www.nearshoretechnology.com/outsourcing/outsourcing-types/

Watson, M. (2017). 10 Common Reasons For Failure With IT Outsourcing Partners.

Retrieved   March 19, 2018, from https://www.ukngroup.com/ukn-blog/10-common-

reasons-failure-it-outsourcing-partners